

# EXHIBIT 3

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=====Begin Message=====

Message#: 106090

Message Sent: 05/29/2008 09:32:10

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Subject: Fwd:Fw: US Fixed Income Daily: LIBOR anxiety

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(See attached file: us\_fixed\_income\_29may.pdf)  
We have just published the following research.

US Fixed Income Daily  
LIBOR anxiety

Economic releases: Q1 GDP (+0.9 actual); Jobless claims (372k); Help wanted (19 forecast)

- The BBA is scheduled to announce any changes to its LIBOR-fixing mechanism tomorrow. We don't expect substantial changes that would warrant a significant change in the level of LIBOR rates. In our view, the WSJ article today, purporting to estimate the mispricing of the LIBOR rate submissions, has limited credibility, as it can be criticized for using 1Y CDS, itself a somewhat illiquid indicator, for projecting 3M LIBOR default premiums, and for a questionable method for calculating a risk-free LIBOR rate. Also, interbank markets to some extent are rationed by quantity rather than price, as counterparties would reduce the lines to a credit-impaired bank.

- We think the actual fixing has been little influenced in practice by individual bank submission errors, given the discarding of outlier submissions. But LIBOR is subject to systemic credit and liquidity concerns, and thus will continue to exhibit spread volatility. There are few transparent viable alternatives: OIS is commonly mentioned, but the underlying effective fed funds rate is subject to anomalies as well, depending on the success of the Fed's open market operations in reaching the funds target. It also doesn't

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accurately reflect actual borrowing costs among a wide variety of international banks.

- This morning, 3M LIBOR rose by 4 bp, with only about half that amount attributable to the market sell-off. Also, there has been some widening in the forward LIBOR-OIS basis over the next year, with the 3M basis at the Sep 08 IMM date widening to 77 bp, compared to 67 bp spot.

- Also, the vote by Bear Stearns shareholders on the JP Morgan deal is scheduled to occur today, with the deal scheduled to close this weekend. The Fed's emergency \$30 bn facility would come on line with the closing, but we think that if the facility were shown to not actually be needed, it would be a big boost for the financial markets and the Fed's political status.

- The 30Y MBS current coupon is about 5.73% this morning after closing at 5.63% yesterday (as high as 5.68% yesterday). If the current coupon crosses the 5.75% mark, we would be in the 6% range for the current coupon straddle. Extension flows could thus step up considerably and exacerbate a selloff at this point, particularly as the recent tightening in mortgages has reduced the bid somewhat.

- Gamma caught a bid in response to a double-digit sell-off after durable goods and on the back of convexity paying. DGX closed almost 9 bp higher at 140.2 bp, about 20 bp above the early month lows. Vega traded flat to slightly lower with DVX unchanged for the day at 99.8 bp.

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